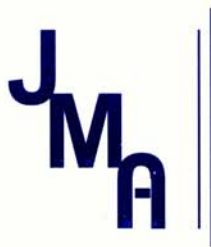


**BENZIE TRANSPORTATION AUTHORITY
AUDIT REPORT
SEPTEMBER 30, 2008**

BENZIE TRANSPORTATION AUTHORITY

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James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT

November 20, 2008

Board of Directors
Benzie Transportation Authority
12762 Honor Highway
Honor, MI 49640

I have audited the accompanying financial statements of the business-type activity and major fund, which collectively comprise the basic financial statements of the Benzie Transportation Authority, as of and for the year ended September 30, 2008, as listed in the table of contents. These statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of The United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and major fund of the Benzie Transportation Authority, as of September 30, 2008, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

MEMBER MACPA and AICPA

In accordance with Government Auditing Standards, I have also issued a report dated November 20, 2008, on my consideration of the Benzie Transportation Authority internal control over financial reporting and my test of its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 3-8, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Benzie Transportation Authority basic financial statements. The accompanying financial information listed as supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Benzie Transportation Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.

A handwritten signature in cursive script, appearing to read "James M. Anderson".

JAMES M. ANDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANT

BENZIE TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2008

Using this Annual Report

Our discussion and analysis of the Benzie Transportation Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended September 30, 2008. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets provide information about the activities of the Authority and present a longer-term view of the Authority's finances.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements, and an additional section that presents supplemental information and schedules. The basic financial statements include two kinds of statements that present different views of the Authority:

- . The first two statements are financial statements that provide both long-term and short-term information about the Authority's overall financial status. These statements report information about the Authority, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Authority's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid. The two statements report the Authority's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities. This is one way to measure the Authority's financial health or position.
- . The remaining statement is a Statement of Cash Flows to demonstrate the activities of the Authority as it relates to cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing, and cash flows from investing activities.

Reporting the Transit Authority as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Revenues, Expenses, and change in Net Assets report information about the Authority, as a whole, and about its activities in a way that helps answer the question of whether the Authority, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Authority's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets regardless of when cash is received and paid.

BENZIE TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2008

The two statements, mentioned above, report the Authority's net assets and how they have changed. The reader can think of the Authority's net assets (the difference between assets and liabilities) as one way to measure the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Authority you need to consider additional non-financial factors such as changes in the County's property tax base, the condition of the Authority's vehicles, and changes in the laws related to the operating assistance received from the Federal and State government.

Financial Analysis of the Transit Authority as Whole

The Authority's Net Assets increased approximately 5%, or \$34,513, from \$684,014 to \$718,527 for the year ended September 30, 2008. The Net Assets and Change in Net Assets are summarized below.

Net Assets

The Authority ended the year with net assets of \$718,527 of which \$754,630 was invested in capital assets leaving an unrestricted deficit of \$36,103. The Authority received \$299,287 in capital grants during the year which contributed to the increase in the capital assets but had an increase of expenses of \$887,620 compared to an increase of only \$238,119 in revenues creating the unrestricted deficit.

The net assets as of the year ended September 30, 2008, are as follows:

	<u>2008</u>	<u>2007</u>	<u>Variance</u>	<u>%</u>
Current and Other Assets	\$ 72,892	\$ 161,632	\$ (88,740)	(54.90)
Capital Assets	<u>754,630</u>	<u>556,168</u>	<u>198,462</u>	<u>35.68</u>
Total Assets	<u>827,522</u>	<u>717,800</u>	<u>109,722</u>	<u>15.28</u>
Current Liabilities	<u>108,995</u>	<u>33,786</u>	<u>75,209</u>	<u>222.60</u>
Total Liabilities	<u>108,995</u>	<u>33,786</u>	<u>75,209</u>	<u>222.60</u>
Net Assets				
Invested in Capital Assets	754,630	556,168	198,462	35.68
Unrestricted	<u>(36,103)</u>	<u>127,846</u>	<u>(163,949)</u>	<u>(128.23)</u>
Total Net Assets	<u>\$ 718,527</u>	<u>\$ 684,014</u>	<u>\$ 34,513</u>	<u>5.04</u>

BENZIE TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2008

Changes in Net Assets

	<u>2008</u>	<u>2007</u>	<u>Variance</u>	<u>%</u>
Operating Revenue				
Charges for Services	\$ 106,684	\$ 44,678	\$ 62,006	138.78
Nonoperating Revenue				
Taxes Levied for Authority	498,555	470,747	27,808	5.90
State of Michigan Operating Grants	583,918	305,043	278,875	59.24
Federal Operating Grants	256,468	133,147	123,321	92.62
Capital Grants	299,287	555,627	(256,340)	(46.13)
Local Grants	5,065	-0-	5,065	100.00
Interest	3,829	4,933	(1,104)	(22.37)
Gain (Loss) on Sale of Assets	<u>(1,512)</u>	<u>-0-</u>	<u>(1,512)</u>	<u>(100.00)</u>
Total Revenue	<u>1,752,294</u>	<u>1,514,175</u>	<u>238,119</u>	<u>15.72</u>
Operating Expense				
Salaries and Wages	918,667	449,916	468,751	104.18
Fringe Benefits	224,370	101,493	122,877	121.06
Depreciation	117,395	42,723	74,672	73.57
Other	<u>457,349</u>	<u>236,029</u>	<u>221,320</u>	<u>93.76</u>
Total Operating Expense	<u>1,717,781</u>	<u>830,161</u>	<u>887,620</u>	<u>106.92</u>
Income (Loss)	34,513	684,014	(649,501)	(94.95)
Beginning Net Assets	<u>684,014</u>	<u>-0-</u>	<u>684,014</u>	<u>100.00</u>
Ending Net Assets	<u>\$ 718,527</u>	<u>\$ 684,014</u>	<u>\$ 34,513</u>	<u>5.04</u>

BENZIE TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2008

Capital Asset and Debt Administration

At September 30, 2008, the Authority had \$754,630 invested in capital assets. This amount represents a net increase (including additions and deductions) of \$98,462 or 35.68% as follows:

	<u>2008</u>	<u>2007</u>	<u>Total Percentage Change 2007-2008</u>
Capital Assets Not Being Depreciated			
Land	\$ -0-	\$ -0-	0.00
Subtotal	<u>-0-</u>	<u>-0-</u>	<u>0.00</u>
Capital Assets Being Depreciated			
Building	197,500	197,500	0.00
Vehicles	657,515	348,648	88.58
Equipment	<u>59,230</u>	<u>52,743</u>	<u>12.29</u>
Subtotal	<u>914,245</u>	<u>598,891</u>	<u>52.65</u>
Total Capital Assets	<u>914,245</u>	<u>598,891</u>	<u>52.65</u>
Total Accumulated Depreciation	<u>159,615</u>	<u>42,723</u>	<u>273.60</u>
Total Net Capital Assets	<u>\$ 754,630</u>	<u>\$ 556,168</u>	<u>35.68</u>

Please refer to the notes of the financial statements for more detailed information.

BENZIE TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2008

Operations and the Future

Overview

The Benzie Transportation Authority (BTA) became operational on January 2, 2007 after many years of effort and passage of a successful millage in the fall of 2006.

We are a county-wide, on demand agency that has just completed our second fiscal year. We are still leasing administrative office space in the same location on U.S. 31 in Honor, however, we are sensing that we are outgrowing this building. We are still utilizing a five bay bus shelter at a location approximately 2 miles west of our administrative offices as our maintenance/garage facility. We share this building with the Council on Aging and have an approved cost allocation plan through the MDOT. We are in serious need of an adequate maintenance facility that would meet the needs for our fleet and mechanics.

Due to the increase in fuel costs and increased service demands, we implemented an Express Route in July that operates Monday - Friday 6:00 a.m. to 6:00 p.m. The Express Route has successfully lowered our fuel usage by significantly reduced the amount of miles we were traveling during the weekdays. We have maintained the on-demand service for our elderly and disabled citizens that require portal to portal service.

Our community is extremely supportive of our service and my staff is held in high regard. Our monthly passenger counts have ranged from 4,564 to 6,792 during 2008. Our expanded service to Traverse City on August 1st with three trips daily Monday - Friday, has shown a significant increase in passengers. We are also continuing to offer Dialysis transportation three times a week.

All of the vehicles we obtained in our first year of operations are eligible for replacement due to high mileage. This past year we were fortunate to acquire 3 - fifteen passenger buses from another transit agency. We were also awarded a medium duty diesel kneeling bus from the PBT. This was 1 of 4 vehicles that were part of a demonstration project through the PBT, and after the completion, it was awarded to the agencies that submitted an application indicating their need for additional vehicles. We also received 4 - fifteen passenger buses via CMAQ funding, including approximately \$8,000.00 of local funding.

We are in need of additional buses, maintenance facilities and a bus shelter. We are currently leasing the same administrative office space and have been utilizing the same 5 bay bus shelter built by the MDOT at a location approximately 2 miles west of our administrative offices. This simply is not a garage facility, it is a shelter and we need to be looking toward the future as well as our immediate needs for a proper garage facility. We will continue to explore co-operative efforts for maintenance with other county agencies.

BENZIE TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2008

Staffing

We originally started with twelve (12) staff members to meet the operational hours of Monday-Friday 6:00 A.M. - 8:00 P.M. Our passenger count increased at such an astounding rate, additional staff and vehicles needed to be added immediately. We currently have a total of 37 staff members, 25 full-time and 12 part-time staff.

Statistics

The passenger counts for 2008:

January	5711
February	5798
March	5828
April	6449
May	6837
June	6811
July	6172
August	5414
September	5625
October	5846
November	4607
December	5045
Total	<u>70,143</u>

Financial

We continue to learn about the MDOT Contract and Procurement procedures. The PCTrans Dispatch Software continues to provide us with the information necessary to complete reports that are required by the MDOT. It also provides us with financial and operational reports. The increase of vehicles, high prices of fuel and the demand for service had a significant impact on our budget this past year. We will continue to be diligent and strive to meet all compliance regulations put forth.

Accidents

The BTA was not involved in any reportable accidents.

Litigation

As of September 30, 2008 BTA is not involved in any form of litigation.

The goal of the Benzie Transportation Authority is to provide safe and efficient transportation along with a high standard of hospitality to all of our customers.

Susan M. Miller
Executive Director
Benzie Transportation Authority

BENZIE TRANSPORTATION AUTHORITY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008

ASSETS

Current

Cash and investments	\$ 49,237
Accounts receivable	1,995
Due from governmental units	13,271
Prepaid expenses	<u>8,389</u>

Total Current Assets 72,892

Property and Equipment, less accumulated depreciation 754,630

Total Assets 827,522

LIABILITIES

Current Liabilities

Accounts payable	59,065
Accrued payroll	<u>49,930</u>

Total Current Liabilities 108,995

NET ASSETS

Invested in Capital Assets, net of related debt	754,630
Unrestricted	<u>(36,103)</u>

Total Net Assets \$ 718,527

The accompanying notes are an integral part of the financial statements.

BENZIE TRANSPORTATION AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2008

Operating Revenues	
Charges for services	
Fare box and special fares	\$ 106,284
Advertising	<u>400</u>
Total operating revenues	<u>106,684</u>
Operating Expenses	
Salaries and wages	918,667
Fringe benefits	224,370
Services	23,564
Materials and supplies	342,072
Utilities	28,917
Casualty and liability insurance	29,727
Miscellaneous	33,069
Depreciation	<u>117,395</u>
Total operating expenses	<u>1,717,781</u>
Operating income (loss)	<u>(1,611,097)</u>
Non-operating Revenues (expenses)	
Property taxes	498,555
Federal	256,468
State	583,918
State and Federal capital grants	299,287
Local	5,065
Interest/investment income	3,829
Gain (loss) on sale of assets	<u>(1,512)</u>
Total non-operating revenues	<u>1,645,610</u>
Change in Net Assets	34,513
Net Assets - October 1, 2007	<u>684,014</u>
Net Assets - September 30, 2008	<u><u>\$ 718,527</u></u>

The accompanying notes are an integral part of the financial statements.

BENZIE TRANSPORTATION AUTHORITY
STATEMENT OF CASH FLOWS
FOR YEAR ENDED SEPTEMBER 30, 2008

Cash flows from operating activities	
Cash receipts from operations	\$ 104,823
Cash payments for supplies and services	(420,953)
Cash payments for employee services and fringes	<u>(1,108,055)</u>
Net cash provided (used) by operating activities	<u>(1,424,185)</u>
Cash flows from noncapital financing activities	
Property taxes	498,555
Federal operating grants	256,468
State operating grants	640,834
Local grants	<u>5,065</u>
Net cash provided (used) by noncapital financing activities	<u>1,400,922</u>
Cash flows from capital and related financing activities	
Federal/State capital grants	299,287
Purchase of fixed assets	(317,869)
Sale of fixed assets	<u>500</u>
Net cash provided (used) by capital and related financing activities	<u>(18,082)</u>
Cash flows from investing activities	
Investment income	<u>3,829</u>
Net cash provided (used) by investing activities	<u>3,829</u>
Net increase (decrease) in cash and cash equivalents	(37,516)
Cash and Cash Equivalents - October 1, 2007	<u>86,753</u>
Cash and Cash Equivalents - September 30, 2008	<u><u>\$ 49,237</u></u>

The accompanying notes are an integral part of the financial statements.

BENZIE TRANSPORTATION AUTHORITY
STATEMENT OF CASH FLOWS
FOR YEAR ENDED SEPTEMBER 30, 2008

Reconciliation of operating income to net
cash provided by operating activities:

Operating income (loss) \$(1,611,097)

Adjustments to reconcile operating income to net
cash provided by operating activities:

Depreciation	117,395
Decrease (increase) in accounts receivable	(1,861)
Decrease (increase) in prepaid expenses	(3,831)
Increase (decrease) in accounts payable	40,227
Increase (decrease) in accrued liabilities	<u>34,982</u>

Total adjustments 186,912

Net cash provided (used) by operating activities \$(1,424,185)

The accompanying notes are an integral part of the financial statements.

BENZIE TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE A - DESCRIPTION OF THE REPORTING ENTITY

The Authority was organized in 2006 under Public Act 196 of 1986. The Authority is a separate legal and administrative unit of government. The purpose of the Authority is to provide public transit services to the general public within Benzie County.

NOTE B - DESCRIPTION OF FUNDS

Enterprise Fund

The Authority Operations Fund is classified as an Enterprise Fund to conform to management requirements and State regulations. An Enterprise Fund is used to report operations that provide services which are financed by user charges, of activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes. Enterprise Funds use the accrual basis of accounting.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Benzie Transportation Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant policies.

Basis of Accounting - The accrual basis of accounting is followed by the Authority. The accrual basis provides that revenues are recorded when earned and expenditures are recorded when the related liability is incurred.

Inventories - Inventories of replacement parts are not maintained and fuel is expensed when purchased. Office supplies are not included in inventories.

Capital Assets - Capital assets are stated at cost or fair market value at date of gift. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized. Provisions for depreciation of equipment are computed on the straight-line method. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives. The Authority's policy is to capitalize qualified purchases in excess of \$1,000 unless they are part of a capital grant where as there is no minimum threshold.

BENZIE TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2008

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Taxes - Current property taxes are levied as of December 1 each year and attach an enforceable lien on the property. Current property taxes levied are collected by other local units of government until the subsequent year when revenue is recognized for the current budget year. Current property taxes from the December 1 levy, which are received prior to December 31, are normally held in the Benzie County's Trust and Agency Fund. The Authority subsequently receives its portion of the levy from this fund.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	Balance 10/01/07	Additions	Deductions	Balance 9/30/08
Building and Improvements	\$ 197,500	\$ -0-	\$ -0-	\$ 197,500
Vehicles	348,648	311,382	2,515	657,515
Shop Equipment	26,142	2,062	-0-	28,204
Office Equipment	26,601	4,425	-0-	31,026
Totals	<u>\$ 598,891</u>	<u>\$ 317,869</u>	<u>\$ 2,515</u>	914,245
Accumulated Depreciation	<u>\$ 42,723</u>	<u>\$ 117,395</u>	<u>\$ 503</u>	159,615
Net Property and Equipment				<u>\$ 754,630</u>

The total depreciation expense for fiscal year ending September 30, 2008 was \$117,395. The eligible depreciation of \$9,814 (\$117,395 total depreciation less ineligible depreciation \$107,581) includes only the depreciation of assets purchased with local funds and where the useful life of the asset purchased has been approved by the Bureau of Passenger Transportation.

Useful lives of depreciable assets are as follows:

Buses & rehabilitations	3-10 years
Operations equipment	5-10 years
Garage equipment	5-12 years
Office equipment	5-12 years
Computer equipment	5 years
Building	20-40 years

BENZIE TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2008

NOTE E - CASH AND INVESTMENTS

The balance sheet accounts and types of cash items are presented below:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	<u>\$ 49,237</u>	<u>\$ 50,641</u>

Deposits - At year end, the carrying amount of the Authority's deposits was \$49,237 and the bank balance was \$50,641. According to Section 330.8 of the Federal Deposit Insurance Corporation Rules and Regulations, approximately 100% of the total bank balance was covered by federal depository insurance.

Investments - Act 217, PA 1982, authorizes the Authority to deposit and invest in the following:

- (a) bonds and other direct obligations of the United States or its agencies
- (b) certificates of deposit, savings accounts, deposit accounts, or depository receipts of federally insured banks, insured savings and loan associations or credit unions insured by the national credit union administration that are eligible to be depository of surplus money belonging to the State under section 5 or 6 of Act 105, PA 1855, as amended (MCL 21.145 and 21.146)
- (c) commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after purchase and not more than 50 percent of any fund may be invested in commercial paper at any time
- (d) United States government or Federal agency obligation repurchase agreements
- (e) bankers' acceptance of United States banks
- (f) mutual funds composed of investments which are legal for direct investments by local units of government in Michigan

BENZIE TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2008

NOTE E - CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to local government's indirect investment in securities through the use of mutual funds or government investment pools.

Interest Rate Risk

The Authority has not adopted a policy that indicates how the Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of Credit Risk

The Authority has not adopted a policy that indicates how the Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

NOTE F - CAPITAL GRANTS

The Transit Authority has contracted with federal and state agencies for grant funds to purchase facilities and equipment. All of the monies that the Authority is now eligible to receive have not yet been disbursed to them, as the projects have not yet been completed. As of September 30, 2008, \$81,119 is still available to the Authority under those grants.

BENZIE TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2008

NOTE G - RISK MANAGEMENT

The Transit Authority is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and commercial insurance and excess coverage policies. Following is a summary of these self-insurance programs and risk management pool participation.

The Transit Authority participates in the Michigan Municipal Risk Management Authority (MMRMA) for general and automobile liability, motor vehicle physical damage and property damage coverages. The MMRMA was established in January 1980, pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of MMRMA is to provide cooperative and comprehensive risk financing and risk control services. The MMRMA provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The Transit Authority makes annual contributions to MMRMA based on actuarial studies using historical data and insurance industry statistics. Such contributions as received by MMRMA are allocated between its general and member retention funds. Economic resources in the MMRMA's general fund are expended for reinsurance coverage, claim payments and certain general and administrative costs. The Transit Authority is a state pool member and has deductibles which differ for each type of coverage.

NOTE H - OPERATING LEASE

The Transit Authority entered into a lease agreement commencing on July 1, 2007 with R & B Leasing Properties, LLC for the use of the building and property located at 12762 Honor Highway, Honor Michigan. The Lease requires monthly payments of \$1338.75 totaling \$16,065 for the year ending June 30, 2009. The lease provides for an automatic renewal each June 30th until June 30, 2011 with a built in annual increase of 5%.

BENZIE TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2008

NOTE I - EXPLANATION OF INELIGIBLE EXPENSES PER THE BPT R&E MANUAL

Ineligible expenses are classified appropriately according to the definition in the Local Public Transit Revenue and Expense Manual (R&E Manual). Audit costs are the only costs in which eligibility differs from the State R&E Manual and the Federal OMB Circular A-87.

NOTE J - NONFINANCIAL DATA

The methodology used for compiling mileage on Schedule 7 - Mileage Data is an adequate and reliable method for recording vehicle mileage.

NOTE K - CONTINGENCIES

Amounts received or receivable under grant programs are subject to audit and adjustment by the grantor agencies, principally the Federal and State governments. Any disallowed claims, including amounts already collected, may constitute a liability of the Transit agency. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Transit agency expects such amounts, if any, to be immaterial.

NOTE L - COST ALLOCATION PLANS

The Benzie Transportation Authority has one cost allocation plan for the use of the maintenance garage where the methodology has been approved by the BPT. The cost allocation plan was adhered to in the preparation of the financial statements.

NOTE M - UNAUTHORIZED UNRESTRICTED NET ASSET DEFICIT

The Benzie Transportation Authority ended the year with a deficit in the unrestricted net assets of \$36,103. Public Act 275 of 1980 requires the Authority to file a deficit elimination plan with the Michigan Department of Treasury within 90 days after the end of the fiscal year.

SUPPLEMENTAL INFORMATION

SCHEDULE 1

BENZIE TRANSPORTATION AUTHORITY
OPERATING REVENUES
YEAR ENDED SEPTEMBER 30, 2008

Operating Revenues

Demand-response (farebox)	\$ 106,142
Charter services	142
Advertising	<u>400</u>
Total Operating Revenues	<u><u>\$ 106,684</u></u>

SCHEDULE 2

**BENZIE TRANSPORTATION AUTHORITY
OPERATING EXPENSES
YEAR ENDED SEPTEMBER 30, 2008**

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total System</u>
Labor				
Operator's salaries and wages	\$ 556,428	\$ -0-	\$ -0-	\$ 556,428
Other salaries and wages	160,853	69,988	131,398	362,239
Fringe Benefits				
Other fringe benefits	165,764	16,174	30,366	212,304
Pensions	9,421	919	1,726	12,066
Services				
Advertising	-0-	-0-	4,029	4,029
Audit	-0-	-0-	4,200	4,200
Other services	6,491	1,698	7,146	15,335
Materials and Supplies Consumed				
Fuel and lubricants	270,363	2,884	-0-	273,247
Tires	8,851	-0-	-0-	8,851
Other materials and supplies	30,927	20,805	8,242	59,974
Utilities	-0-	-0-	28,917	28,917
Casualty and Liability Costs				
Premiums for public liability and property damage insurance	29,727	-0-	-0-	29,727
Miscellaneous Expenses				
Travel and meetings	-0-	-0-	5,020	5,020
Association dues & subscriptions	-0-	-0-	848	848
Leases & rentals	20,326	-0-	1,345	21,671
Other	1,813	537	3,180	5,530
Depreciation	<u>107,323</u>	<u>2,809</u>	<u>7,263</u>	<u>117,395</u>
Total Expenses	<u>\$ 1,368,287</u>	<u>\$ 115,814</u>	<u>\$ 233,680</u>	<u>\$1,717,781</u>

SCHEDULE 3

BENZIE TRANSPORTATION AUTHORITY
NONOPERATING REVENUES
YEAR ENDED SEPTEMBER 30, 2008

Local Operating Grants

Tax Levy	\$ 498,555
Public Donations	<u>5,065</u>

Subtotal Local Operating Grants	<u>503,620</u>
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State of Michigan Operating Grants

Formula Operating Assistance (Act 51)	580,989
RTAP	<u>2,929</u>

Subtotal State of Michigan Operating Grants	<u>583,918</u>
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Federal Operating Grants

U.S. DOT Operating Grant - Section 5311	<u>256,468</u>
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State Capital Grants	<u>299,287</u>
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Interest Income	<u>3,829</u>
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Gain (Loss) on Sale of Assets	<u>(1,512)</u>
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Total Nonoperating Revenues	<u><u>\$ 1,645,610</u></u>
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SCHEDULE 4

**BENZIE TRANSPORTATION AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE GRANTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

Federal and State Grantor/Pass-Through	Federal CFDA Number	Grant Number	Program Award Amount	Current Year Expenditures			Prior Year Expend- itures	Award Amount Remaining
				Total	Federal	State		
Passed Through Michigan Department of Transportation								
Operating Assistance - Section 5311	20.509	07-0175/Z3	<u>\$ 256,468</u>	<u>\$ 256,468</u>	<u>\$ 256,468</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Federal Transit Capital Grants	20.500							
Capital Grant		07-0175/Z7	10,672	-0-	-0-	-0-	-0-	10,672
Capital Grant		07-0175/Z8	58	-0-	-0-	-0-	-0-	58
Capital Grant		07-0175/Z4	6,930	-0-	-0-	-0-	-0-	6,930
Capital Grant		07-0175/Z6	25,174	-0-	-0-	-0-	-0-	25,174
Capital Grant		06-0554	237,080	-0-	-0-	-0-	209,804	27,276
Capital Grant		07-0175/Z2	235,015	219,287	219,287	-0-	4,719	11,009
Capital Grant		07-0175/Z5	<u>80,000</u>	<u>80,000</u>	<u>-0-</u>	<u>80,000</u>	<u>-0-</u>	<u>-0-</u>
Total Capital Grants			<u>594,929</u>	<u>299,287</u>	<u>219,287</u>	<u>80,000</u>	<u>214,523</u>	<u>81,119</u>
Michigan Department of Transportation								
Non Urban Operating Assistance - Act 51 Current Year	N/A	N/A	<u>580,999</u>	<u>580,999</u>	<u>-0-</u>	<u>580,999</u>	<u>-0-</u>	<u>-0-</u>
Total Federal and State Grants			<u>\$1,432,396</u>	<u>\$1,136,754</u>	<u>\$ 475,755</u>	<u>\$ 660,999</u>	<u>\$ 214,523</u>	<u>\$ 81,119</u>

SCHEDULE 5

BENZIE TRANSPORTATION AUTHORITY
NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS
YEAR ENDED SEPTEMBER 30, 2008

	2007-0175/Z3 Federal Section 5311	State Operating Assistance
Expenses		
Labor	\$ 918,667	\$ 918,667
Fringe benefits	224,370	224,370
Services	23,564	23,564
Materials & supplies	342,072	342,072
Utilities	28,917	28,917
Casualty & liability costs	29,727	29,727
Miscellaneous	33,069	33,069
Depreciation	<u>117,395</u>	<u>117,395</u>
Total Expense	1,717,781	1,717,781
Less Ineligible Expenses		
Depreciation	107,581	107,581
Audit Cost	4,200	-0-
RTAP	2,929	2,929
CTAA Dues	4	4
Charter Services	<u>142</u>	<u>142</u>
Net Eligible Expenses	<u>\$ 1,602,925</u>	<u>\$ 1,607,125</u>
Maximum Section 5311 Reimbursement (16.0%)	<u>\$ 256,468</u>	
State Operating Assistance		<u>\$ 580,989</u>

Federal Section 5311 expenses are only those expenses incurred in providing service to nonurbanized areas. The State Operating Assistance is computed at 36.1508% of the current eligible expenses for the year ended September 30, 2008.

BENZIE TRANSPORTATION AUTHORITY
DETAIL OF INELIGIBLE EXPENSES
YEAR ENDED SEPTEMBER 30, 2008

Depreciation

Depreciation accrued from assets funded by capital grants is considered ineligible in accordance with the Bureau of Passenger Transportation's Revenue and Expense Manual.

Annual Audit Fees

Any Transit Agency that expends less than \$500,000 in federal funds must subtract out the cost of the annual audit as an ineligible expense under Section 5311. Therefore, \$4,300 has been treated as ineligible for Section 5311 purposes.

CTAA Dues

1.66% of CTAA dues are considered ineligible for reimbursement under State Operating Assistance and Section 5311 Operating Assistance Programs for the year ended September 30, 2008.

Capital Grants

Capital grant funds used to pay operating expenses are required to be treated as ineligible for calculating state and federal operating assistance. During the current year, the Transit did not have any of these type of expenses.

Charter Services

Charter service revenue is subtracted out as ineligible in accordance with the Bureau of Passenger Transportation's Revenue and Expense Manual.

BENZIE TRANSPORTATION AUTHORITY
MILEAGE DATA - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2008

<u>DEMAND RESPONSE</u>	<u>Public Transportation Mileage</u>
1st Quarter	162,904
2nd Quarter	181,624
3rd Quarter	197,546
4th Quarter	<u>186,998</u>
TOTAL OPERATIONS	<u><u>729,072</u></u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.



James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

P.O. Box 255 • Roscommon, MI 48653

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

November 20, 2008

Board of Directors
Benzie Transportation Authority
12762 Honor Highway
Honor, MI 49640

Dear Board:

I have audited the accompanying financial statements of the business-type activity and major fund which collectively comprise the basic financial statements of the Benzie Transportation Authority for the year ended September 30, 2008, and issued my report thereon dated November 20, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Benzie Transportation Authority's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Benzie Transportation Authority's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

MEMBER MACPA and AICPA

Segregation of Duties

Management is responsible for establishing and maintaining internal controls for the Authority.

At many small governmental units, proper segregation of duties within the accounting department is a challenge for management. The Authority currently does not have effective segregation of duties within the accounting department.

This condition was caused by limited personnel involved in the accounting functions.

The Authority is aware of this limitation, and is in the process of evaluating and implementing new controls to correct or mitigate this situation in the future.

Financial Statement Preparation

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the Authority's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting). As is the case with most small and medium-sized entities, the Authority has historically relied on its independent external auditor to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Authority's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot, by definition, be considered a part of the government's internal controls. This condition was caused by the Authority's determination that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Authority to perform this task internally.

A Control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Benzie Transportation Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. I consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.


My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

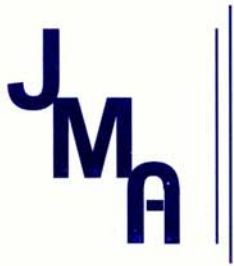
As part of obtaining reasonable assurance about whether the Benzie Transportation Authority's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

I noted certain other matters that I reported to management of the Benzie Transportation Authority in a separate letter dated November 20, 2008.

This report is intended for the information of management, the Board of Directors, federal awarding agencies, and pass-through agencies and is not intended to be, and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "James M. Anderson".

JAMES M. ANDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANT



James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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November 20, 2008

Board of Directors
Benzie Transportation Authority
12762 Honor Highway
Honor, MI 49640

I have audited the financial statements of the business-type activity and major fund of the Benzie Transportation Authority for the year ended September 30, 2008, and have issued my report thereon dated November 20, 2008. Professional standards require that I provide you with the following information related to my audit.

My Responsibility Under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in my engagement letter dated October 29, 2008, my responsibility, as described by professional standards, is to plan and perform my audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because I did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by me.

As part of my audit, I considered the internal control of the Benzie Transportation Authority. Such considerations were solely for the purpose of determining my audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of Benzie Transportation Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of my tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of my engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Benzie Transportation Authority are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. I noted no transactions entered into by the Benzie Transportation Authority during the year that were both significant and unusual, and of which, under professional standards, I am required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Benzie Transportation Authority's financial reporting process (that is, cause future financial statements to be materially misstated). In my judgment, none of the adjustments I proposed, whether recorded or unrecorded by the Benzie Transportation Authority, either individually or in the aggregate, indicate matters that could have a significant effect on Benzie Transportation Authority's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to my satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves applications of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

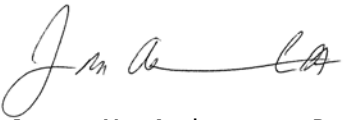
Issues Discussed Prior to Retention of Independent Auditors

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Benzie Transportation Authority's auditor. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing my audit.

This information is intended solely for the use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

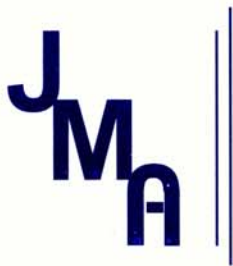
A handwritten signature in cursive script, appearing to read "James M. Anderson".

James M. Anderson, P.C.
Certified Public Accountant

BENZIE TRANSPORTATION AUTHORITY

REPORT TO MANAGEMENT

SEPTEMBER 30, 2008



James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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November 20, 2008

Board of Directors
Benzie Transportation Authority
12762 Honor Highway
Honor, MI 49640

In planning and performing my audit of the financial statements of the Benzie Transportation Authority, as of and for the year ended September 30, 2008, I considered the Authority's accounting, operational, and internal control procedures to determine the nature and extent of my audit testing for the purpose of expressing an opinion on the financial statements of the Authority and not to provide assurance on the procedures themselves.

I did however, during the course of my audit, become aware of certain matters that are opportunities for enhancing those procedures or controls. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. This letter does not affect my report dated November 20, 2008, on the financial statements of the Benzie Transportation Authority.

I have already discussed these comments and suggestions with the Authority's personnel, and I will be pleased to discuss them in further detail at your convenience, and/or to perform any additional studies of these matters, should you so desire.

Sincerely,

A handwritten signature in dark ink, appearing to read 'J M Anderson', with a stylized flourish at the end.

JAMES M. ANDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANT

**BENZIE TRANSPORTATION AUTHORITY
COMMENTS AND RECOMMENDATIONS**

Unauthorized Unrestricted Net Assets Deficit

Although the Authority ended the fiscal year with total net assets of \$718,527, the unrestricted portion had a deficit of \$36,103. Public Act 275 of 1980 requires the Authority to file a deficit elimination plan with the Michigan Department of Treasury within 90 days of the year end.

Vehicle Statistic Information

During the testwork of the mileage and vehicle information used to prepare the quarterly State Operating Assistance Reports, we found that there were discrepancies between historically prepared reports and current reports prepared for the same periods. This resulted in inconsistencies in the final reconciled reports and the quarterly reports filed. It appears that this may be caused from the removal of sold or obsolete vehicles from the system mid year. I recommend that management contact the software company to find out what caused this to avoid it from occurring in the future.